Table 1-1. **Worksheet for Foreclosures and Repossessions** *Keep for Your Records*

Part 1. Complete Part 1 only if you were personally liable for the debt (even if none of the debt was canceled). Otherwise, go to Part 2.	
1. Enter the amount of outstanding debt immediately before the transfer of property reduced by any amount for which you remain personally liable immediately after the transfer of property	________
2. Enter the fair market value of the transferred property	________
3. **Ordinary income from the cancellation of debt upon foreclosure or repossession.*** Subtract line 2 from line 1. If less than zero, enter zero. Next, go to Part 2	________
Part 2. Gain or loss from foreclosure or repossession.	
4. Enter the **smaller** of line 1 or line 2. If you did not complete Part 1 (because you were not personally liable for the debt), enter the amount of outstanding debt immediately before the transfer of property	________
5. Enter any proceeds you received from the foreclosure sale	________
6. Add line 4 and line 5	________
7. Enter the adjusted basis of the transferred property	________
8. **Gain or loss from foreclosure or repossession.** Subtract line 7 from line 6	________
* The income may not be taxable.	

had stopped making loan payments. The balance due after taking into account the payments Tara made was $10,000. The FMV of the car when it was repossessed was $9,000. On November 15, 2010, the credit company forgave the remaining $1,000 balance on the loan due to insufficient assets.

In this case, the amount Tara realizes is $9,000. This is the smaller of:

- The $10,000 outstanding debt immediately before the repossession reduced by the $1,000 for which she remains personally liable immediately after the repossession ($10,000 − $1,000 = $9,000), or
- The $9,000 FMV of the car.

Tara figures her gain or loss on the repossession by comparing the $9,000 amount realized with her $15,000 adjusted basis. She has a $6,000 nondeductible loss. After the cancellation of the remaining balance on the loan in November, Tara also has ordinary income from cancellation of debt in the amount of $1,000 (the remaining balance on the $10,000 loan after the $9,000 amount satisfied by the FMV of the repossessed car). Tara must report this $1,000 on her return unless one of the exceptions or exclusions described in chapter 1 applies.

Example 2. Lili paid $200,000 for her home. She paid $15,000 down and borrowed the remaining $185,000 from a bank. Lili is personally liable for the loan and the house is pledged as security for the loan. In 2010, the bank foreclosed on the loan because Lili stopped making payments. When the bank foreclosed the mortgage, the balance due was $180,000, the FMV of the house was $170,000, and Lili's adjusted basis was $175,000 due to a casualty loss she had deducted. At the time of the foreclosure, the bank forgave $2,000 of the $10,000 debt in excess of the FMV ($180,000 minus $170,000). Lili remained personally liable for the $8,000 balance.

In this case, Lili has ordinary income from the cancellation of debt in the amount of $2,000. The $2,000 income from the cancellation of debt is figured by subtracting the $170,000 FMV of the house from the $172,000 difference between Lili's total outstanding debt immediately before the transfer of property reduced by the amount for which she remains personally liable immediately after the transfer ($180,000 minus $8,000). Lili is able to exclude the $2,000 of canceled debt from her income under the qualified principal residence indebtedness rules discussed earlier.

Lili must also determine her gain or loss from the foreclosure. In this case, the amount that Lili realizes is $170,000. This is the smaller of: (a) the $180,000 outstanding debt immediately before the transfer reduced by the $8,000 for which she remains personally liable immediately after the transfer ($180,000 − $8,000 = $172,000) or (b) the $170,000 FMV of the house. Lili figures her gain or loss on the foreclosure by comparing the $170,000 amount realized with her $175,000 adjusted basis. She has a $5,000 nondeductible loss.

Amount realized on a nonrecourse debt. If you are not personally liable for repaying the debt secured by the transferred property, the amount you realize includes the full amount of the outstanding debt immediately before the transfer. This is true even if the FMV of the property is less than the outstanding debt immediately before the transfer.

Example 1. Tara bought a new car for $15,000. She paid $2,000 down and borrowed the remaining $13,000 from the dealer's credit company. Tara is not personally liable for the loan (nonrecourse), but pledged the new car as security for the loan.

On August 1, 2010, the credit company repossessed the car because Tara had stopped making loan payments. The balance due after taking into account the payments Tara made was $10,000. The FMV of the car when it was repossessed was $9,000.

The amount Tara realized on the repossession is $10,000. That is the outstanding amount of debt immediately before the repossession, even though the FMV of the car is less than $10,000. Tara figures her gain or loss on the repossession by comparing the $10,000 amount realized with her $15,000 adjusted basis. Tara has a $5,000 nondeductible loss.

Example 2. Lili paid $200,000 for her home. She paid $15,000 down and borrowed the remaining $185,000 from a bank. Lili is not personally liable for the loan, but pledges the house as security.

The bank foreclosed on the mortgage because Lili stopped making payments. When the bank foreclosed on the loan, the balance due was $180,000, the FMV of the house was $170,000, and Lili's adjusted basis was $175,000 due to a casualty loss she had deducted.

The amount Lili realized on the foreclosure is $180,000, the outstanding debt immediately before the foreclosure. She figures her gain or loss by comparing the $180,000 amount realized with her $175,000 adjusted basis. Lili has a $5,000 realized gain. See Publication 523 to figure and report any taxable amount.

Forms 1099-A and 1099-C. A lender who acquires an interest in your property in a foreclosure or repossession should send you Form 1099-A, Acquisition or Abandonment of Secured Property, showing information you need to figure your gain or loss. However, if the lender also cancels part of your debt and must file Form 1099-C, the lender can include the information about the foreclosure or repossession on that form instead of on Form 1099-A. The lender must file Form 1099-C and send you a copy if the amount of debt canceled is $600 or more and the lender is a financial institution, credit union, federal government agency, or any organization that has a significant trade or business of lending money. For foreclosures or repossessions occurring in 2010, these forms should have been sent to you by February 1, 2011.

3. Abandonments

You abandon property when you voluntarily and permanently give up possession and use of the property with the intention of ending your ownership but without passing it on to anyone else. Whether an abandonment has occurred is determined in light of all the facts and circumstances. You must both show an intention to abandon the property and affirmatively act to abandon the property.

A voluntary conveyance of the property in lieu of foreclosure is not an abandonment and is treated as the exchange of property to satisfy a debt; for more information see *Sales and Exchanges* in Publication 544.

The tax consequences of abandonment of property that secures a debt depend on whether you were personally liable for the debt (recourse debt) or were not personally liable for the debt (nonrecourse debt).

TIP *See Publication 544 instead if you abandoned property that did not secure debt. This publication only discusses the tax consequences of abandoning property securing a debt.*